

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL MEMORANDUM**

**HB 2840 – SB 2777**

March 14, 2012

**SUMMARY OF AMENDMENT (014676):** Repeals the gift tax on transfers made on or after October 1, 2012.

**FISCAL IMPACT OF ORIGINAL BILL:**

Decrease State Revenue – Net Impact -  
\$14,953,400/FY13-14 and Subsequent Years

Decrease State Expenditures - \$112,600/FY13-14  
\$167,700/FY14-15 and Subsequent Years

Increase Local Revenue - \$218,200/FY13-14 and Subsequent Years

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by passage of this proposed legislation. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

**FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:**

Decrease State Revenue – Net Impact -  
\$3,738,400/FY12-13  
\$14,953,400/FY13-14 and Subsequent Years

Decrease State Expenditures - \$167,700/FY13-14 and Subsequent Years

Increase Local Revenue – \$54,600/FY12-13  
\$218,200/FY13-14 and Subsequent Years

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. Such impacts may be realized due to changes in population or as a result of other behavioral changes prompted by passage of this proposed legislation. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

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Assumptions applied to amendment:

- Under current law, gift tax collections for gifts made during tax year 2012 accrue to FY12-13. This collection pattern is assumed to remain constant into perpetuity.
- According to the Department of Revenue (DOR), gift tax collections were approximately \$15,470,000 in FY10-11.
- Gift tax collections under current law remain constant at FY10-11 levels.
- One-hundred percent of gift tax collections are allocated to the General Fund.
- The recurring decrease in state revenue as a result of repealing the state's gift tax is estimated to be \$15,470,000 per year.
- Fifty percent of taxpayer savings will be spent on other sales-taxable goods and services.
- An increase in taxable sales of \$7,735,000 ( $\$15,470,000 \times 50.0\%$ ) per year.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of state sales tax revenue as state-shared sales tax revenue.
- The net recurring increase in state sales tax revenue is estimated to be \$516,584  $[(\$7,735,000 \times 7.0\%) - (\$7,735,000 \times 7.0\% \times 4.5925\%)]$ .
- The total recurring increase in local government revenue is estimated to be \$218,241  $[(\$7,735,000 \times 2.5\%) + (\$7,735,000 \times 7.0\% \times 4.5925\%)]$ .
- The total net recurring decrease in state revenue is estimated to be \$14,953,416  $(\$15,470,000 - \$516,584)$ .
- Revenue impacts for FY12-13 are estimated to be 25 percent of the first full-year impact (FY13-14) due to an effective date of October 1, 2012. These quarter-year impacts are assumed to occur because the effective date follows completion of 75 percent of tax year 2012 under current law (gift tax will be due on gifts made between January 1, 2012, and September 30, 2012; but no longer due on gifts made on or after October 1, 2012).
- Based on information provided by DOR, four positions from the Audit Division can be eliminated as a result of no longer having to administer the gift tax. The recurring decrease in state expenditures is estimated to be \$167,700 per year. This reduction of positions will not be possible until FY13-14 because all gift tax returns for tax year 2012 (for gifts made between January 1, 2012, and September 30, 2012) will not be completely settled until the end of FY12-13.
- There could be subsequent increases in state and local government revenue and expenditures due to secondary economic impacts prompted by passage of this bill. Increases in revenue may occur if the state's population increases as a result of a reduced tax liability. Increases in expenditures may occur if the demand for governmental programs and infrastructure increase as a result of population increases. Due to multiple unknown factors such as the extent and timing of population changes, the fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "Lucian D. Geise". The signature is fluid and cursive, with the first name "Lucian" written in a larger, more prominent script than the last name "Geise".

Lucian D. Geise, Executive Director

/rnc